Statement of Richard Moe, President
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"Historic Preservation and Community Development: Why Cities and Towns Should Look to the Past as a Key to their Future"

U. S. House Government Reform Committee
Subcommittee on Federalism and the Census
The Honorable Michael R. Turner, Chairman

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Introduction

Mr. Chairman and members of the Subcommittee, good morning. My name is Richard Moe and I am the President of the National Trust for Historic Preservation. For more than 50 years, the National Trust has been helping to protect the nation's historic resources as a Congressionally chartered, private, nonprofit membership organization dedicated to protecting the irreplaceable. Recipient of the National Humanities Medal, the Trust provides leadership, education, and advocacy to save America's diverse historic places and revitalize communities. With over a quarter-million members and thousands of local community groups in all 50 states, the Trust is the leader of a vigorous preservation movement that is saving the best of our past for the future. Its mission has expanded since its founding in 1949 just as the need for historic preservation has grown. When historic buildings and neighborhoods are torn down or allowed to deteriorate, we not only lose a part of our past forever, we also lose a chance to revitalize our communities.

At the outset of this statement, the Trust would like to recognize Chairman Turner for his leadership on this panel, as Co-Chair of the bipartisan Congressional Historic Preservation Caucus and Chair of the Speaker's Saving America's Cities Working Group, in calling attention to the public policies that affect the nation's communities and Congress' role in making our cities and towns the best they can be. I would especially like to thank you and the Subcommittee for highlighting the powerful influence of historic preservation in rebuilding New Orleans and the Gulf Coast communities devastated by last year's hurricanes. You helped the Trust in getting Congress to pass a substantial grant program and increases in the federal historic preservation tax credit to make the region's historic neighborhoods whole again. On behalf of the entire preservation community, thank you, Mr. Chairman, for your long-standing support for historic preservation and awareness of the value it has to revitalizing the places where we live, work, and play.

Preservation and Community Revitalization

The Trust has long recognized the links between historic preservation, community revitalization, and housing. America's older and historic neighborhoods already house record numbers of low- and moderate-income residents. Thirty-two percent of households below the poverty line and 34 percent of renters whose household income is less than $20,000 per year live in older and historic homes. Of the nation's over 12,000 historic districts comprising over a million contributing structures, 60 percent overlap census tracts in which the poverty rate is 20 percent or greater. In many parts of the country where abandoned buildings are located in some of the nation's most disinvested communities, there is a need for incentives to create housing and stabilize neighborhoods. Lastly, vacant or underutilized historic structures that were not built for housing, but no longer serve their intended purpose – such as warehouses, factories, mills, and department stores – can be adaptively re-used as catalysts for attracting new investment in the neighborhoods that need it most. So many of these historic and older buildings are located near existing infrastructure, transportation hubs, schools, and neighborhood-serving retail.

The Federal Historic Preservation Tax Credit

One of the principal federal incentives for rehabilitating older and historic buildings is the Historic Rehabilitation Tax Credit (rehab credit). Since 1976, the National Park Service has administered the program in partnership with the Internal Revenue Service and the State Historic

Preservation Officers (SHPOs). President Reagan's 1981 Economic Recovery Tax Act refined this in Section 47 of the Internal Revenue Code to include a three-tiered income tax credit that took its present form in 1986 with further amendments. It now has two parts, the first and most widely used is for "qualified rehabilitation expenditures" incurred in connection with the "substantial rehabilitation" of a "certified historic structure." There's also a 10 percent credit for expenditures incurred in the rehabilitation of non-residential, non-historic structures built before 1936. The rehab credit represents the federal government's largest historic preservation program.

Although it has been widely used as an effective tool for bringing vacant and abandoned buildings back onto the tax rolls – and in some cases providing safe, decent, and affordable places to live – it must be improved so that it can truly realize its full potential. So far, it has been a catalyst for commercial re-use and re-investment in historic resources and since its enactment it has also helped build 170,000 housing units – 60,000 of which were affordable. The rehab credit should be easier to use, especially in projects that twin the incentive with the Low-Income Housing Tax Credit (LIHTC) and for smaller, more "main street"-oriented projects. Last year, Section 47 produced more than 15,000 units of housing across the country and nearly 40 percent of those fell into the affordable category. But it can do a lot more.

Unlocking the Tax Credit's Full Potential

The Trust has worked with several teams of experts that have studied the potential for greater housing production and economic development through historic credits, and have concluded that certain structural features of the rehab credit are actually impeding their expanded use – especially as tools for affordable housing. There was a symposium in 1998 cosponsored by the National Park Service (NPS) and the Historic Preservation Education Foundation called "Affordable Housing, Combining the Tax Credits." The NPS Symposium identified the myriad of minor discrepancies between the Section 47 Credits and the LIHTC, collectively, as a key impediment to increasing the number of historic buildings that are being rehabilitated into low-income housing. Utilizing a "One Set of Rules for Housing" slogan, the Symposium's action plan proposed harmonizing many of these mismatches that drive up transaction costs and often act as traps, even for the wary.

Another event, the "City Building and The Historic Rehabilitation Tax Credit," sponsored by the Urban Land Institute (ULI) Policy Forum in 2001, reached many similar conclusions. Participants in the ULI Forum concluded that even minor structural modifications would allow the rehab credit to achieve even greater results as a community revitalization and economic development tool.

It has been almost two decades since Congress has revisited Section 47 of the Code and the machinery of the federal government's historic preservation tax incentives. Nonetheless, both the ULI Forum and the NPS Symposium concluded that nothing short of Congressional action could effectuate most of the technical corrections and other modifications needed to boost the efficiency of the rehab credit. Largely with this end in mind, in 2001 the Historic Preservation Development Council ("HPDC") was formed as an affiliate of the National Housing & Rehabilitation Association, in partnership with the Trust. This partnership produced an eleven point agenda of needed technical corrections and improvements to the rehab credit.

The Community Restoration and Revitalization Act

During the last Congress, the Trust convened a working group of partnering preservation organizations and other tax credit stakeholders to take a closer look at the 11 recommendations for making the tax credit work better. This led to the introduction of the Trust's number one legislative priority, HR 3159 – the Community Restoration and Revitalization Act, introduced by Representatives Phil English and William Jefferson. Mr. Chairman, I am grateful that you are an original cosponsor of this measure and have urged your colleagues on the Congressional Historic Preservation Caucus to cosponsor it. This bill now has 67 cosponsors and we are expecting the companion measure's introduction in the Senate shortly. It is endorsed by such organizations as Preservation Action, the National Conference of State Historic Preservation Officers, The American Institute of Architects, and the Affordable Housing Tax Credit Coalition. It would make five substantial changes to the rehab credit so that it can more effective in community revitalization, housing, and smaller "main street" type deals. I hope that every member of this body would consider cosponsorship of HR 3159 because of the tremendous value it would have to the nation's cities and towns. My colleague John Leith-Tetrault, President of the National Trust Community Investment Corporation, will let you know about some of the specifics in his remarks today.

Furthering the Tax Credit Agenda

This bill is just a first small step toward making the rehab credit work as effectively as possible for making our historic communities the best they can be. I hope that Congress will foster and expand tax incentives like this as part of any legislation affecting the larger public policy agenda on America's cities and towns. Protecting tax credits is particularly important at a time when the rehab credit and other credits that work in conjunction with it to improve neighborhoods – such as the New Markets Tax Credit and the Low-Income Housing Tax Credit – may be vulnerable to changes in the tax code and the tight budget climate. The private sector reinvestment alone represented in the historic credit – $31 billion leveraged into the economy since the credit was enacted – should continue to express Congress' vision for saving the places we value and place the costs of rehabilitation on more equal footing with the often cheaper alternative of demolition and new construction.

As I said, this legislative initiative is a first step toward a better, more-effective rehab credit and toward the goal of ensuring that tax incentives work better together in development projects that make a difference in the neighborhoods that need investment the most. It is important to mention, however, that the greatest need in America's historic and older neighborhoods is for an equivalent to the Section 47 historic rehab credit for owner-occupied homes. Some of the greatest erosion and decay in our cities and towns across the nation is the caused by the inability of average homeowners to afford the maintenance, upkeep, and renovation costs associated with older and historic dwellings. I hope that our work may someday lead toward Congress providing to homeowners an incentive that is similar to the one it now provides to commercial properties.

Additional Federal Incentives and Programs for Congress to Consider

1. Encouraging State Tax Credits

As some of today's witnesses have said, state tax credits are very valuable tools for revitalizing disinvested older and historic communities, and can be tailored to fit the particular reinvestment needs of each individual state. They are often most effective, however, when used in conjunction with federal incentives such as the historic preservation tax credit. The Trust has been working with state and local preservation organizations nationwide to support the enactment of these incentives at the state level. We hope that Congress would encourage this by ensuring that the tax code is favorable to the creation of state credits for historic preservation and particularly in establishing a strong linkage between state and federal tax incentives. The Historic Rehabilitation Enhancement Act of 2005 (HR 2488), sponsored by Congressman Russ Carnahan, is one measure that would help our goals. It is designed to promote and enhance the use of state historic rehabilitation tax credits by providing a clear guideline for the federal income tax treatment of dispositions or refunds of state tax credits for historic rehabilitation. The net effect would be an enhancement and greater use of state tax credits by strengthening the historic real estate market.

2. Supporting the National Park Service

The NPS does a tremendous job in administering the federal historic tax credit program, but there is more that could be done to expand the universe of projects eligible for this incentive. Recently, the Trust participated on the National Parks Advisory Board to develop recommendations for streamlining reviews and providing greater flexibility so that more projects may qualify for the rehab credit. These recommendations should be implemented by the agency and done so in close collaboration with the SHPOs.

3. Providing for the Historic Preservation Fund

Lastly, all of these recommendations to unlock the full potential of the national historic preservation program for community revitalization and economic development hinge upon the annual budget Congress provides for the Historic Preservation Fund (HPF). It is chronically underfunded. The HPF provides needed support for the SHPOs in administering their duties under the National Historic Preservation Act, and inadequate funding undermines their ability to review and facilitate the tax credit applications and National Register applications required for eligible projects to move forward. SHPO's are critically important to an effective federal tax credit program and work locally with developers to provide technical assistance with the application process. In addition, the Park Service is responsible for approving these applications, and without adequate staff and funding for agency personnel the process can be delayed and rendered less effective nationwide.

Another program funded under the HPF warrants particular recognition – Save America's Treasure (SAT). At a time when federal funds for preservation are already scarce, the Trust is extremely concerned that Congress is proposing major cuts that would deal a huge blow to the only major "bricks-and-mortar" preservation program in the nation today. A reduction in funds would jeopardize scores of preservation projects throughout the country and mean that more of America's heritage in cities and towns will almost certainly be lost. At a time when the Administration is launching its commendable effort on the Preserve America program under Chairman Nau's leadership, it would be an extraordinary missed opportunity not to ensure that both programs are mutually supportive of one another in the context of the larger national historic preservation program. This begins with maintaining SAT funding.

Conclusion

Thank you, Mr. Chairman, for inviting me to speak to the Subcommittee today on behalf of the Trust and participate in this hearing. The Trust stands ready to assist you in any way to advance Congress' historic preservation agenda – especially as it relates to strengthening and revitalizing America's communities.